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SUBJECT: KUWAITIS TALK IRAN, IRAN, AND ENERGY WITH DEPUTY
SECRETARY OF ENERGY PONEMAN

REF: KUWAIT 1117

Classified By: Economic Counselor Oliver B. John for reasons 1.4 (b & d).

¶1. (C) Summary: On December 6, Kuwait's Prime Minister made a strong plea to visiting DoE DepSec Poneman to avoid any military option against Iran, noting that Kuwait would be one of the first countries affected by any attack. The FM meanwhile noted that only a unified front by the P-5 and others and the threat of consequences (presumably economic) would move the Iranians to "change course" and relinquish their nuclear ambitions. Kuwaiti officials told Depsec Poneman that they seek expanded bilateral cooperation in helping protect Kuwait's critical energy infrastructure, and in developing renewable and nuclear energy. The DepSec extended an invitation to the Minister of Electricity and Water to visit the national labs and to increase lab to lab contacts. They also discussed plans to increase oil production capacity to 4 million barrels per day, from what they currently described as a 3 million barrel per day capacity, and highlighted efforts to increase natural gas production. End Summary.

¶2. (SBU) On December 6, Deputy Secretary of Energy Daniel Poneman led an interagency (State, Energy, NSC) delegation to Kuwait to stress the importance of the U.S. - Kuwaiti relationship, to discuss potential areas of energy cooperation with the GoK, and to brief on international efforts regarding Iran's nuclear program. DepSec Poneman, accompanied by Ambassador, met with Kuwait Prime Minister Sheikh Nasser Mohammed Al-Sabah, Deputy Prime Minister/Foreign Minister Sheikh Dr. Mohammad Al-Sabah, Minister of Electricity and Water Dr. Bader Al-Shuraiaan; National Security Bureau Vice President Sheikh Thamer Al-Sabah; and Kuwait Petroleum Corporation CEO Saad Al-Shuaib. DOE PDAS Jonathan Elkind met separately with Dr. Ahmed Bishara, the Secretary General of the National Nuclear Energy Committee and other committee members (septel).

Iran

¶3. (C) DepSec Poneman briefed the PM, FM, and Sheikh Thamer on the international proposal for Iran to ship 1,200 kg of Low Enriched Uranium produced at Natanz to a location outside Iran and replace it with 20 percent enriched fuel elements to be used to produce medical radioisotopes at the Tehran Research Reactor. Poneman stressed that the IAEA, the Russians, and the U.S. had all taken every possible step to address stated Iranian concerns, including a first-ever official USG statement of support for the proposal. He stressed that the offer would not remain open indefinitely; as DG El Baradei had said, this is a & fleeting⁸ opportunity. He also explained that the extra effort had strengthened international cooperation, with Russia and China

supportive of the recent IAEA BOG resolution. Poneman suggested that the Kuwaitis work to convince China that it had important economic ties to the GCC that would counterbalance its economic interests in Iran.

¶4. (C) For his part, the PM noted that he had visited Iran two weeks earlier, and urged that the U.S. continue talking to the Iranians without raising the threat of military action. In any conflict, he noted, Kuwait would be the first country affected. He also argued that the Iranians doubted Russian fuel supply assurances, asking rhetorically whether "this is Gazprom in October," in other words, whether the Russians would build Iranian dependence and then either hike the price or squeeze the supply.

¶5. (C) While acknowledging the difficulties in dealing with Iran, the PM -- who served for 12 years in Kuwait's Embassy in Tehran -- offered his view that patience and continued dialogue would yield results. DepSec Poneman responded that the best chance for a peaceful solution would be for the Iranians to accept the Tehran Research Reactor proposal and that its continued enrichment efforts, in violation of existing UN Security Council resolutions, were destabilizing; this was the message Kuwait should be sending to Tehran. The PM asked whether Poneman was soliciting Kuwait's mediation with Iran on behalf of the U.S.; Poneman said "not at all," but again stressed the need for the international community to reinforce a unified position.

¶6. (C) The Foreign Minister, who had accompanied the PM on his visit to Tehran, offered DepSec and Ambassador a different perspective as he escorted them to their car. The

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Iranians had been completely inflexible and, he believed, would not change their position on the nuclear program unless they believed that a heavy penalty would be attached to continuing their actions. Dr. Mohammed was skeptical of the notion that Ahmadinejad was more forward leaning and prepared to negotiate, noting that Supreme Leader Khamenei was committed to the nuclear option. Dr. Mohammed also stressed that international solidarity was critical to pressuring the Iranians. In this regard, he questioned Chinese solidarity and sought reassurances that the Russians were fully supportive.

Iraq

¶7. (SBU) Electricity and Water Minister Al-Shuraiaan and KPC CEO Al-Shuaib briefly discussed Iraqi oil and gas production and possibilities for cooperation. Al-Shuraiaan noted that Iraqi natural gas would provide a cleaner source for Kuwait's power plants than fuel oil, and noted the possibility of Kuwaiti investment in the Iraqi gas sector. He stressed, however, that ongoing political instability in Iraq discouraged large scale investment there. Al-Shuraiaan also suggested that Iraq might be able to provide natural gas, in lieu of money, to meet some of its UN Compensation Commission payments to Kuwait. He acknowledged, however, that his ministry was not in discussions with the Iraqis, and that communications were better handled under the UN umbrella. (Note: Kuwaitis have proposed using UNCC payments to invest in projects inside Iraq, but this is the first time we have heard any proposal that those payments be commoditized. It is not clear that this suggestion has broader GoK support. End Note.) For his part, Al-Shuaib noted that Kuwait had bought gas from Iraq during Saddam's time, but expressed doubt that Iraq would be able to develop its oil and gas resources as quickly as it was proposing. He noted that, politically, Iraq was too unstable. But absent that, he suggested that it would be technically more difficult to increase oil production at the rate Iraq wanted, without damaging the reservoirs.

Oil Development - Committed "Responsible Supplier"

¶18. (SBU) KPC CEO Saad Al-Shuaib stressed KPC's interest in working closely with its "partners" around the world and in being a responsible producer. He stressed that KPC's remained committed to reaching a sustainable production capacity of 4 million barrels per day (mmb/d) by 2020. He stressed that Kuwait had made a huge investment in reaching its current 3 mmb/d capacity and would be investing around \$80 billion in the upstream and downstream sectors over the next five years. He noted that Kuwait had spent a billion dollars increasing its export capacity to 3 mmb/d, increasing the number of single point moorings for oil tankers to four from one.

¶19. (SBU) Al-Shuaib explained that Kuwait would be developing its (currently undeveloped) heavy oil reserves, suggesting that KPC's goal would be developing the capacity to produce between 300,000 to 500,000 barrels per day of heavy oil. He expressed confidence regarding the availability of the reserves, but acknowledged that costs might preclude producing at the higher target. (Note: ExxonMobil is currently in negotiations with KPC about the heavy oil project, although securing permission to proceed, including by the parliament, is far from a done deal. End note.) Al-Shuaib also briefly discussed Kuwait's natural gas development plans. Currently, he stated, Kuwait produces around 1 billion cubic feet (Bcf) per day of associated gas. KPC hoped to increase production of non-associated gas from the current 140-170 million cubic feet per day to 600 million cubic feet per day by 2017 and 1 bcf by 2020 in part based on the fields discovered in 2005.

¶10. (SBU) Al-Shuaib stressed that KPC continued to talk to IOCs about upstream opportunities. Since production sharing agreements were impossible, given parliamentary opposition, KPC was trying to convince the IOCs that Enhanced Technical Services Agreements could be made financially attractive. He also stressed that much of the equipment KPC used in both the upstream and downstream sectors came from U.S. companies and that Fluor had the largest share of the three Project Management Contractors operating in Kuwait.

¶11. (SBU) On the downstream side, Al-Shuaib discussed KPC's intent to retender the 4th refinery project (cancelled earlier in the year) to refine low sulfur fuel oil for

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Kuwait's power plants. He added that Kuwait planned to import LNG for the next 5 years until the refinery came on line. Al-Shuaib also expressed interest in importing pipeline gas from Kuwait's neighbors and confirmed that Kuwait had had discussions with Iran, Iraq, and Qatar about this possibility over the years, but that nothing had come of these discussions. Al-Shuaib also stressed that Dow remained a strategic partner, despite the failure of K-Dow, and was -- for example -- KPC's partner in its major refinery joint venture in China.

Critical Energy Infrastructure

¶12. (C) DepSec Poneman stressed the USG's desire to support the GoK's efforts to protect critical energy infrastructure in whatever fashion the GoK found useful. Sheikh Thamer stressed that the USG-GoK partnership was based on mutual understanding, adding "I don't need a piece of paper to say that." He briefly discussed the efforts to develop a Memorandum of Understanding and predicted that it was just a matter of time to finalize it. (Comment: Given some of the recurring issues regarding aspects of the MOU, including cost-sharing, it may make more sense to try and set up working group discussions to look at specific areas for potential cooperation even in advance of finalizing the MOU. End comment.)

¶13. (SBU) Al Shuwaib stressed Kuwait's efforts to increase its energy infrastructure, stating that he believed the Shuwaiba was much more secure than it had been. He expressed concerns with two vulnerabilities: the Strait of Hormuz and Somali piracy, noting that a Greek-flagged VLCC carrying Kuwaiti export crude had recently been hijacked by Somali pirates. He suggested that Somali piracy could eventually dramatically increase costs of shipping product to Europe and the U.S. Al-Shuwaib suggested that the solution to the Hormuz 'choke-point' problem would be a GCC pipeline stretching along the gulf (and overland across the UAE) to the Gulf of Oman. He acknowledged the costs involved and that there was no real movement on this in the GCC.

Rapidly Growing Power Demand

¶14. (SBU) The Deputy Secretary told Al-Shuraiaan about our interest in broadening our cooperation in areas such as renewable energy. He extended an invitation to Al-Shuraiaan to visit the National Renewable Energy Laboratory and to increase lab to lab cooperation. Al-Shuraiaan suggested that if the two governments signed an agreement on energy research and production, it could facilitate cooperation across a broad range of topics, including renewables, particularly solar, and other technical fields such as demand management and conservation.

¶15. (SBU) Al-Shuraiaan stressed that the GoK's goal was to increase private sector participation in the economy, including in the power sector. He noted that since 1992, when talks with Enron about an independent power and water project (IWPP) were cancelled, the GoK had not moved forward on private sector participation in power generation. The GoK is now starting "from scratch" in its efforts to bring in the private sector, he said. DepSec Poneman noted that the IPP model appealed to some U.S. companies, adding that some U.S. utilities had become interested in international operations.

¶16. (SBU) Al-Shuraiaan noted his interest in cooperating in renewable energy. He said the Ministry had met with a U.S. company that made state-of-the-art PV cell technology, which had expressed interest in building a plant in Kuwait. He noted that the price would be competitive with oil at about 12 cents per kilowatt hour. Even if the price was 10 percent higher, he noted, Kuwait would be interested. Renewable energy would save oil usable elsewhere and would help Kuwait meet its international obligations to reduce emissions.

Nuclear Energy

¶17. (SBU) Deputy Secretary Poneman stressed to his interlocutors a shared interest in developing peaceful nuclear energy. He cautioned, however, that the international community needed to protect against the potential proliferation risks posed by nuclear power development. He highlighted POTUS's Prague speech and efforts to develop "cradle-to-grave" fuel cycle arrangements that obviated the need for countries to develop problematic

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domestic enrichment and reprocessing capabilities. He also urged the GoK to consider joining the Global Nuclear Energy Partnership, and described efforts to modify it to be more inclusive that had found support at the recent GNEP meetings in Beijing.

¶18. (SBU) The PM explained that Kuwait was in the initial stages of evaluating nuclear power, and that he had delegated the operations of Kuwait's nuclear power committee to the Foreign Minister and a team of experts. He added that he thought that Kuwait would be cooperating with the French, but welcomed cooperation with the U.S. as well. In an earlier meeting, Al-Shuraiaan noted the difficulties in siting a nuclear power plant (per the Amir's stated desire) in a

country with a sharply limited coastline. He noted that water temperature in the Gulf was a problem and added that one-third of Kuwait's coast line was effectively blocked by Bubiyan Island and that the southern coast line was largely developed. If the USG had technical solutions to these concerns, they would be welcome, and should be brought before the nuclear power committee. Depsec Poneman responded that we would welcome cooperation in this area.

¶19. (SBU) The FM subsequently contacted Ambassador to urge that Poneman have a separate meeting with the Secretary General of Kuwait's Nuclear Energy Committee, who had also attended the PM's meeting. Poneman's schedule did not allow a meeting with the nuclear committee, so PDAS Elkind and staff met with the Kuwaitis at the offices of Kuwait Institute for Scientific Research (KISR). The Kuwaiti side requested USG assistance with training, manpower development and regulatory structures. The two delegations agreed to exchange more detailed ideas about possible cooperation by end-January. The Kuwaitis proposed to enter into an MOU with the United States on peaceful nuclear cooperation.

¶20. (SBU) Comment and Action Request: DepSec Poneman's very positive visit will help move forward potential USG-GoK energy cooperation in a number of areas, including critical energy infrastructure protection, and in renewable and nuclear energy. Given Kuwait's constitutional difficulties with upstream investments, this will continue to be a challenging place for IOCs to do business and will complicate Kuwait's efforts to further develop its hydrocarbon resources. Post would propose several follow-up steps to move cooperation forward:

-- Post requests guidance on the Minister of Electricity and Water's suggestion that the USG and the GoK sign an agreement on energy cooperation.

-- Post would support the proposed mid/end-January exchange of ideas on civil nuclear cooperation, and recommends a meeting between U.S. and Kuwaiti experts as soon thereafter as possible. Post will work with Kuwaiti officials on the Kuwait Nuclear Energy Committee to ensure that they crystallize ideas on areas where they seek U.S. assistance.

-- Post will also follow-up with Kuwaiti officials from the Kuwait Institute for Scientific Research, the National Nuclear Energy Committee, and the Ministry of Electricity and Water to determine interest in lab visits and lab to lab cooperation and would appreciate guidance on specifics.

-- With regard to pursuing critical energy infrastructure protection, post suggests that Washington agencies consider proposing a JWG meeting to start the dialogue, in parallel with efforts to conclude the MOU, and possibly before actually concluding the MOU. This would enable the Kuwaitis to get a better interagency understanding of exactly what capabilities the USG can bring to the table in support of their CEIP agenda

¶21. (U) DepSec Poneman has cleared this cable.

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JONES